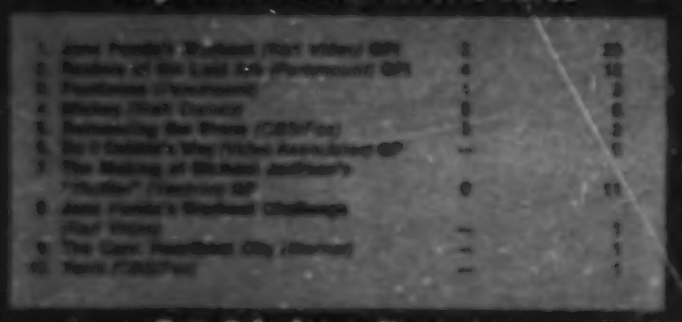
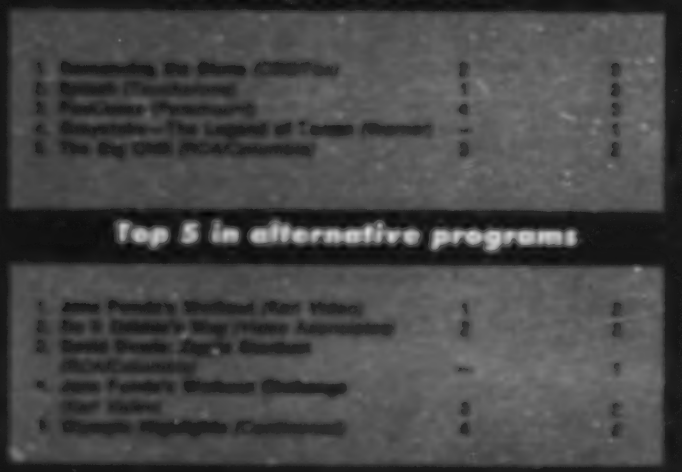
Merchandising's TOP FIFTY

Top 30 in videocassette rentals

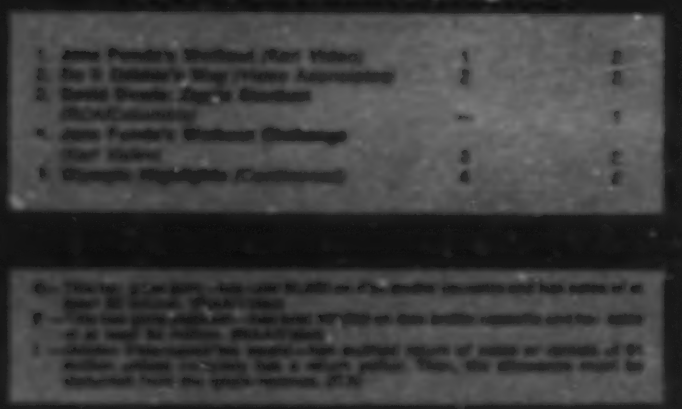
Top 10 in videocassette sales



Top 5 in laserdisc sales



Top 5 in alternative programs



VIDEO/NEW RELEASES

CBS/FOX VIDEO

REUBEN, REUBEN (1983) Tom Conti was nominated for an Oscar for his portrayal of Gowan McGland, a washed-up poet lecturing on the New England college circuit. A less-than-entirely sympathetic character, McGland drinks heavily, steals tips from waiters and sleeps with just about any woman who crosses his path until he meets Geneva Spofford (Kelly McGillis) and his life turns around. *Color R 100 minutes closed captioned C:* $59.98.

SLEEPER (1973) Woody Allen (director, co-author) is thawed out in the year 2173 after having been frozen during a minor operation 200 years earlier. He finds himself in a world where chocolate cream pie is health food, Howard Cosell is torture and a nose runs the country—in short, a world not unlike our own. With Diane Keaton. *Color PG 88 minutes C:* $59.98.

MCA

CONAN THE DESTROYER (1984) Arnold Schwarzenegger flexes his way through another Conan adventure, seeking a queen's magic treasure. Along the way he runs into such everyday folks as Wilt Chamberlain and Grace Jones. Directed by Richard Fleischer (Fantastic Voyage), the touch in this film is a little lighter than with the original Conan the Barbarian. *Color PG 101 minutes VHS hifi mono Beta hifi mono C:* $79.95.

THE MAN WHO KNEW TOO MUCH (1956) In the third of the '50's era Hitchcock films to recently be released on cassette, James Stewart and Doris Day are the parents of a small boy kidnapped to keep his parents quiet about a political assassination. Hitchcock called this remake of his own 1934 film "the work of a professional, where the first was that of a gifted amateur." And Doris sings Que Sera, Sera. *Color PG 120 minutes VHS hifi mono Beta hifi mono C:* $59.95.

MEDIA

ELVIS—'68 COMEBACK SPECIAL (1968) After an eight-year absence from the small screen, Elvis Presley returned with a special on Dec. 3, 1968, in which he included some of his biggest hits. Hound Dog, Heartbreak Hotel, Jailhouse Rock, Don't Be Cruel and others are performed in this special, reproduced here to coincide with Elvis's 50th birthday. *Color 76 minutes C:* $29.95.

MGM/UA

MANHATTAN (1978) Woody Allen's first film after Annie Hall concerns itself with a group of upper-Westsiders drifting in and out of romantic relationships, and specifically with a writer's (Allen) affair with a high-school girl (Mariel Hemmingway) and its impact on his life. *B/W PG C:* $79.95.

PARAMOUNT

TOP SECRET! (1984) From the writers and directors of Airplane! comes this daffy tale of a rock singer (Val Kilmer) involved in intrigue, romance and surf music behind the Berlin Wall. He falls for a lovely freedom fighter who happens to be the daughter of a kidnapped scientist who's being forced to work on a secret weapon that...well, you know. *Color PG C:* $79.95.

RCA/COLUMBIA

MOSCOW ON THE HUDSON (1984) Robin Williams, a saxophone player with the Russian circus, defects in Bloomingdale's, is taken in by a black security guard (Cleavant Derricks) and gets himself a Cuban girlfriend (Maria Conchita Alonso) in producer-director Paul Mazursky's ode to the Melting Pot of America. From a script by Mazursky and Leon Capetanos. *Color R 115 minutes VHS hifi Beta hifi C:*$79.95.

THE NATURAL (1984) After being shot by a mysterious femme fatale, Roy Hobbs (Robert Redford) waits a number of years before trying to restart his baseball career, and becomes the oldest rookie on record in this story based on Isaac Beshevis Singer's story. With Robert Duvall and Glenn Close, directed by Barry Levinson. *Color PG 134 minutes VHS hifi Beta hifi C:*$79.95.

THORN EMI

DREAMSCAPE (1984) Dennis Quaid is a young man with ESP who makes his living betting on horses until being blackmailed into participating in an experiment to enter someone else's dream and become a participant. *Color PG-13 99 minutes C:*$79.95.

WARNER

POLICE ACADEMY (1984) This high-grossing comedy deals with a class of police cadets in an academy that accepts everybody. *Color R 96 minutes C:* $79.95 *LV:* $34.98.

TIGHTROPE (1984) In one of his most unusual roles to date, Clint Eastwood plays a police detective questioning his own motives and drives as he stalks a rapist-killer. Eastwood won critical praise for his introspective portrayal. *Color R 115 minutes C:*$79.95 *LV:*$34.98.

Tough times may brighten for diehard computer dealers

By Frank Cavaliere, associate editor

NEW YORK—The going got tough for many retailers selling computers and related peripherals and software in 1984, but for those that remained in the category, better times may be ahead.

That's one of the findings from *Merchandising*'s latest Retail Opinion File. Of the 199 retailers who responded to the questionnaire, we found that some wrote off 1984 as an off year for computer merchandising. But after proving their staying power by continuing to sell the units and related products this year, many of those retailers indicated they expect next year to be an improvement.

No matter what's happened in the past, every type of store surveyed expects to beef up its computer commitment in '85.

Of the 95 operations that categorized themselves as electronics stores, 30.5 percent said they carried computers in 1984, up from the 24.1 percent that said they sold the units the previous year. And despite the recent tough selling atmosphere, more of these electronics retailers, 39 percent, said they would merchandise the units next year.

Looking at household appliance stores, only 8.3 percent of the 60 respondents carried computers in '84, down from 18.3 the previous year. But 15 percent of those asked said they plan to carry computers next year.

For mass merchandise outlets, the findings showed a similar curve. Of the 17 respondents, 70.6 percent carried computers back in the headier days of 1983. That figure dropped to 41.2 percent this year. But the shakeout in mass merchandiser stores, apparently, has stopped, and the figure for next year remains steady at 41.2 percent.

Why are certain retailers so unwilling to throw in the towel regarding computers? They seem to expect their experience through the difficult times will benefit them when the selling environment gets better. And they hope that will occur in 1985.

Trading up

Another change is being felt as retailers continue to emphasize more expensive computers.

A look at the survey supports this. Of the 62 respondents who answered our question asking them to list their best selling model for 1983, 22.6 percent named the Commodore 64. In second place were various Radio Shack units, with 21 percent of the total. Apple had a 12.9 percent response, followed by Atari with 9.7 percent. IBM was in the seventh spot with 3.2 percent of the total.

But the trend toward emphasizing higher-end units started this year when only 17.3 percent of 58 replies listed the Commodore 64 as their best selling computer and the Radio Shack units outpaced the low-end leader with a 24.2 percent of the total response. Apple edged closer to Commodore with a 15.6 percent figure. Atari slipped to 5.2 percent of the total, and IBM increased its figure to 5.2 percent. Other higher-end units also increased their shares, with Epson and Kaypro among those showing higher response rates.

It can be argued that both Apple and IBM have a host of computer models to increase their percentage while Commodore still means mostly the 64 and Atari has been plagued by corporate uncertainty. But the trend is apparent. More Apple, IBM, Epson and AT&T units can be expected to appear on mass merchandisers shelves in 1985.

A similar downward line is found when looking at Atari. In 1983, 23.6 percent of those queried said they sold Atari computers. In 1984, 21.2 percent said they did, and next year the figure is expected to drop all the way to 6.9 percent.

But the two leading higher-end companies, Apple and IBM, will experience a corresponding increase. Of the respondents questioned, 13.9 percent of them said they carried Apple product in 1983. That figure increased to 18.2 percent this year and will be higher again in 1985, with expected growth to 19 percent. IBM followed Apple's lead by going from a 6.9 percent figure in 1983 to 12.1 percent this year and a projected 15.5 percent figure next year.

The survey also asked retailers to list their average gross profit margins

(Continued on page 27)

Percent of stores carrying computers in 1983, 1984 and expected in 1985

(Number of replies)	Total (199)	Electronics Stores (95)	Computer Specialty (27)	Household Appliance (60)	Mass Merchandise (17)
Expected in '85	40.2%	39.0%	100.0%	15.0%	41.2%
Carry in '84	34.2	30.5	100.0	8.3	41.2
Carried in '83	45.2	24.1	100.0	18.3	70.6

Computer brands carried (one or more models) in 1983, 1984 and expected in 1985

(Number of replies)	1983 (72)	1984 (66)	1985 (58)
Commodore	31.9%	22.7%	17.2%
Atari	23.6	21.2	6.9
Radio Shack	22.2	24.2	27.6
Apple	13.9	18.2	19.0
IBM	6.9	12.1	15.5
Epson	6.9	9.1	6.9
Sinclair (Timex)	6.9	4.6	1.7
Zenith	5.6	7.6	8.6
Texas Instruments	5.6	1.5	1.7
Hewlett-Packard	2.8	4.6	5.2
Televideo	2.8	6.1	5.2
Sanyo	2.8	4.6	5.2
Chameleon	2.8	3.0	3.5
Kaypro	2.8	3.0	3.5

Some 23 other brands, including Leading Edge, Eagle, Compaq, Sharp, Coleco and NEC, were listed by one, two or three other dealers.

Comparison of current statistics on selected popular computer models

	Average Retail Price	Average Gross Profit Margin
Apple IIc	$1,278	28.4%
Atari 800XL	$230	10.3
Commodore 64	$206	8.6
IBM PC	$2,848	26.0
TRS-80 Color	$208	24.6
Epson QX-10	$2,421	26.7
Kaypro	$1,445	27.5

Which of the following best describes your store(s)?
(Based on 199 replies)

	Number of replies	Percent of response
Electronics store	95	47.7%
Household appliance store	60	30.2
Computer specialty store	27	13.6
Mass merchandiser	17	8.5
Total	199	100.0%

Who did it

Statistical matter for this survey was collected and compiled by Selma Book, market research manager, and Pat Jagbandhansingh, research associate.

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Computer saturation is still only 3% in Japan due to a lack of need, poor merchandising

By Frank Cavaliere, associate editor

TOKYO—Although the Japanese have a well-documented fascination for consumer electronics products, the home computer has become something of a stepchild in a nation that boasts record saturation levels of more conventional items such as stereo equipment.

The basic reason: There's simply no need for a computer in most Japanese homes, according to officials of Epson Corp., which recently led a group of editors on a tour of its Japanese production facilities.

Then too, there's the fact that computer retailing has not been popularized in Japan to the degree that it has in the U.S. Few department stores or other general merchandise outlets merchandise the products, leaving interested consumers to brave the often frightening prospect of visiting a computer specialty store.

In the U.S. market, where computers can be purchased in everything from toy stores to specialty outlets, Epson is currently fine-tuning its offerings to meet domestic demands. Its moves, however, do not portend entry into the home computer market, at least not yet, the company said.

When Epson does approach the home user, it will probably be via a portable product, according to one official who sees smaller, full-powered computers as the "fourth revolution" in the industry.

Saturation remains low

While Americans usually view their Japanese counterparts as having the latest of everything, from pocket-sized tape recorders to televisions with stereo sound, the impression is somewhat misleading. Especially in computers.

A recent survey showed that only three percent of Japanese households currently own a home computer. American households, on the other hand, have a 10 percent penetration rate according to most market research results.

Why do Americans seemingly have an edge in home computer ownership despite the legendary Japanese penchant for the latest in consumer electronics continues unabated?

"There is really no definite need for a home computer in Japan right now," replied Susumu Aizawa, Epson's senior managing director and representative director, through an interpreter. "But some teenagers now are using them in school, so the time will come when more people will have computers."

JAPANESE MISTAKES like not investing in American software firms have worked against Epson and benefited firms such as IBM, contends Epson president Tsuneya Nakamura.

The three percent of computerized households are drawn from a group ranging from middle managers who bring work home with them (although Japanese usually work long office hours, so working at home is not as prevalent as in the United States) to school children.

Another stumbling block preventing the home computer from achieving widespread popularity is rooted in the Japanese language, one of the most difficult on earth. Unlike English, which relies on 26 characters, the Japanese have 4,000 Kanji, or Chinese, characters to deal with, in addition to the katakana (Japanese phonetic characters) and hiragana (a variation of katakana). All of these combine to present a dizzying problem to anyone trying to market a functional keyboard.

And MSX, the standardized disc operating system which has yet to make its U.S. debut, is not boosting sales all that much in Japan. In general, the people view MSX machines as primarily game-playing devices, said Aizawa.

Perhaps another factor in the low rate of saturation is that few department stores or other general merchandise stores in Japan offer computers for sale. Instead, the Japanese rely on computer specialty stores, including some ComputerLand franchises.

In addition, computers are sold direct by the manufacturer. Epson, for example, operates some 3,000 specialty computer shops in Japan, according to Aizawa, 50 percent of which are "active," or open to the general public. The rest are either experimental units or open only to a special part of the marketplace.

But change is coming. "General merchandise stores are starting to get into the personal computer market as more people become interested in the product," noted Aizawa.

Computers a hard sell

Like many of its American counterparts, Epson (which stands for "son of electronic printer") is currently trying to decide which part of the U.S. market would be best to pursue. Aizawa said that while Japanese companies have enjoyed phenomenal success selling everything from VCR's to miniature personal portable radios in the U.S., computers present unique problems.

Epson knows well the difficulties. The division, the youngest of the Seiko group, Epson's parent company, has been selling two personal computers in the U.S., and has received a fairly tepid response. Both the company's QX-10 and the forerunner of Epson's new Geneva, the HX-20, fared poorly when introduced. But now, Aizawa said, the company is hoping new improved versions will be successes.

Epson president Tsuneya Nakamura said both his company and his competitors have been hurt by the success of Apple and IBM, with both American firms capitalizing on Japanese mistakes. One of those miscalculations involved not investing in American software programs, as did their American counterparts, noted Aizawa.

No plans for home unit

With its U.S. computers aimed primarily at businesses and students, Epson has no immediate plans to introduce a true home computer to the market.

"It is very difficult to tell when we will have such a computer in America," said Aizawa. He made clear, however, that when such a unit is unveiled, it will not be in the low-end Commodore, Coleco and Atari market.

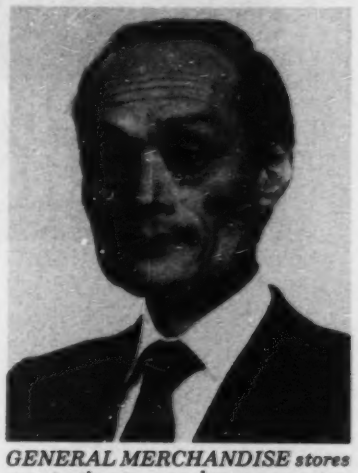
Rather, it will be the next generation of portable units, an area which Epson considers a prime opportunity for future growth.

Aizawa said at least part of the current strategy is to transfer the technology of Epson's very powerful desktop units to such a portable machine.

Aizawa termed this blending of desktop and portable technology a "fourth revolution," following the advent of the mainframe, the mini and the personal computer. "If we could pack a computer with the same architecture as today's professional personal models into a briefcase, this would indeed be a fourth revolution," he stated.

While president Nakamura said Epson is committed to both the portable and personal computer markets, Aizawa noted that there is serious industry debate over whether the portables can win a significant market share, or are inherently limited to small, specialized market segments.

Which way will the market go? "Fast-moving technological developments and increasing user sophistication make a definitive answer impossible," Aizawa noted. But, he said, "if portables do represent the fourth revolution, Epson will play an important role."



GENERAL MERCHANDISE stores are starting to carry home computers in Japan as more people become interested in the product, according to Susumu Aizawa, senior managing and representative director, Epson.

Will computers sell in Japanese malls?

TOKYO—Although most Japanese department stores do not now carry computers, if and when they start, the product should fit in well among the high-tech glitter of operations such as Hankyu and Seibu. Both, located on or near the Ginza, Japan's most famous central business and shopping district, have earned a reputation for electronic gadgetry at all levels.

In Hankyu, for instance, customers can summon up a display on a videotex screen showing what departments are on which floors. By pushing the part of the screen showing the section they're interested in, shoppers can receive a more detailed description of that particular department.

Even the escalators feature overhead monitors showing scenes of waves breaking on a beach or flowers in a wind-blown meadow to soothe the savage shopper.

—FC

Profit margins on Commodore 64 average 8.6%

(Continued from page 26)

for computer models carried in 1983, 1984 and expected 1985, and here the results carried out the contention that the higher-end models gave retailers fewer headaches and more profits.

In 1983, retailers questioned carved out an average profit margin of 11 percent on the Commodore 64. In 1984, that figure dropped further, to an average of 8.6 percent. Atari also had to be discounted to move off the retailers' shelves, as the 800XL model had an average gross profit margin of 22.6 percent in 1983 and less than half that, 10.3 percent, this year.

For Apple and IBM, the results were again more encouraging.

In 1983, retailers made an average of 32 percent profit on an Apple IIe. The figure dropped slightly to 27.2 percent this year, and retailers expected to make an average of 27.5 percent gross profit margin in 1985. The Apple IIc, which was not introduced until earlier this year, had a 28.4 percent average gross profit margin this year, and retailers expect that figure actually to rise to 30 percent in 1985.

For IBM's PCjr, the average gross profit margin was 26 percent this year. In 1985, retailers expect to make even more money on the product, to the tune of 29.3 percent.

All of this evidence suggests that consumers who shop for higher-ticket computers in the $1,500-and-above range are less price conscious than shoppers for Commodore, Coleco and Atari units. One of the possible reasons is that these consumers are more concerned with features than sticker price.

Also, the higher-end market has not been as volatile as the low-end part of the computer business. Apple and IBM, the two acknowledged leaders, do compete, but their rivalry has not caused prices to drop to the same extent as those for the Commodore 64 and Atari 800XL.

The chart on page 26 supports this supposition. Where Commodore and Atari products yielded slim profit margins, Apple, IBM, Epson and Kaypro products all had average gross profit margins of above 24 percent. And none of the latter were priced less than $1,278.

TELEPHONES & Personal Electronics

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Phone ownership is rising, according to research study

By Frank Cavaliere, associate editor

NEW YORK—The average phone owner has slightly more than two telephones, and chances are they're located in the kitchen and the master bedroom. They are probably standard, rotary dial models that cost about $29.50 each and have no special features.

The owner of these phones is most likely to be between the ages of 21 and 49 and lives in a household with an income of more than $25,000 per year. And he thinks his phones are going to last forever.

These are among the conclusions reached by the Yankee Group, a Boston-based market research firm, and presented at a two-day seminar held here recently.

To develop its information, the Yankee Group surveyed 1,008 people, 55 percent of whom own at least one phone. The remaining 45 percent, or 453 people, continue to lease. And of that group, 344 have no plans to purchase their phones.

According to Donna Amrhein, a Yankee Group analyst, the survey was performed primarily to measure the amount of phone ownership, establish where phones are located in the home, obtain demographic profiles of phone users, establish brand awareness and determine consumer purchasing patterns and preferences.

43 million households own

The survey, done in late June, revealed that 43 million households now own at least one phone.

Phone owners average slightly more than two units per household. Those respondents who both own and lease phones have slightly less than two. And those who had no intention of buying a phone had the lowest phone average, with 1.5 units. Meanwhile, people who do not yet own a phone, but do intend to purchase one, average three phones per household.

On tradition of the pre-divestiture days still holds when it came to where in the house the phone was most likely to be found. About 57 percent of those asked said they had one phone in the kitchen. The second most popular room was the master bedroom, with slightly more than 50 percent saying there was a unit in that room. Next came the living room with 30 percent. Another unspecified room, another bedroom and the study/den all received about a 10 percent response rate.

The kitchen phone was also the least likely unit to be owned, reported Amrhein. Over 56 percent of kitchen phones are leased, while the figure for all the other rooms averages below 40 percent.

"There are probably two main reasons for this," she said. "One is that those people with only one phone are most likely to have it in the kitchen, and they consider it an advantage to lease the unit rather than to own it. The other possible reason is due to longevity. The kitchen phone has been in the same place for so long that nobody considers changing it to an owned unit."

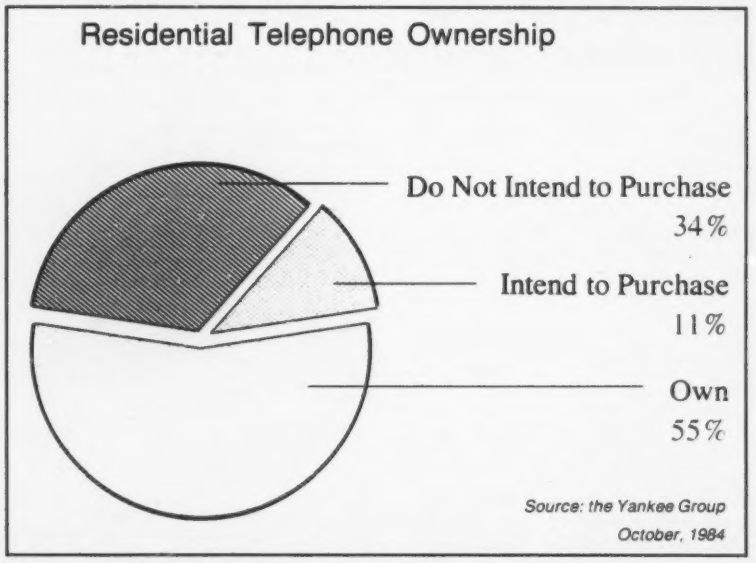
Another finding that could be placed under the heading, "The more things change, the more they stay the same," concerned the styles of phones used by those polled.

The basic rotary dial phone accounted for the largest percentage, with 37 percent saying that is the type of phone they used. Next came the standard tone unit, with 18 percent of the 1,005 people saying they used such a unit. The remaining 45 percent was split among Trimline-style tone units, Trimline-style dial phones and princess-style tone and dial units. Thirteen percent of those asked said they used another type of phone.

The survey also revealed a demographic profile of the typical phone owner. "Over 50 percent are between 21 and 49 years old, with the majority of them earning more than $25,000 per year. About one-third of them have a professional or managerial occupation," Amrhein reported.

The demographic profile for those who lease units is almost identical to owners, she noted. The only difference is that among those who intend to buy a phone, the majority of income falls between $25,000 and $40,000 annually. Among those who lease and do not intend to buy a unit, over 50 percent have annual incomes under $25,000 and the head of the household is more likely to be over 50 years old, according to the survey.

The survey held good news for both retailers and manufacturers regarding the potential of converting non-owners to owners.



ONLY 11 PERCENT of the 1,008 people polled by the Yankee Group intend to purchase a phone in the near future. Fifty-five percent of those queried already own a phone, the survey revealed.

"About 85 percent of the non-buyers questioned did not have a convincing reason for not owning a phone," said Amrhein.

Only two percent said a phone was too expensive to buy, and only four percent said they were concerned about service procedure if they bought their own unit.

The rest of the respondents had either never considered buying a phone, said they had considered it but decided against it, found leasing convenient, eventually planned to buy or cited other reasons.

"This suggested to us that the majority of people who continue to lease their phones do so because of inertia. They just haven't gotten around to investigating owning a phone," said Amrhein.

She said the job of convincing this group belongs to the manufacturers, and cited examples of firms that had produced print ads detailing the advantages of ownership over leasing. "These ads might not convince a person to go out and buy a phone, but they will at least get them to think about it," Amrhein continued.

The survey also revealed that owners paid an average of $29.50 for a basic rotary dial telephone and $38.90 for a standard tone wall unit. A princess-style dial phone averaged $36.60, a princess-style tone model, $42. Consumers paid the highest price for a cordless unit, with purchases averaging $106. Clock/radio phone units came in second, with a $65.30 price tag.

The most important factor in choosing a phone was design. About 40 percent of the 555 owners said they first looked at how a unit looked and then considered other factors. Almost 30 percent of the owners said price was the main selling point. The remaining 30 percent cited other, nonlisted reasons.

Most consumers who bought a phone expected it to last forever. A full 37 percent of those asked said they assumed the unit they purchased was indestructable. Only 10 percent said they expected the unit to last, at the longest, three years.

"Nobody has ever said a phone would last forever. It's just that back in the old days people were never aware when their phone broke because a guy came over to the house and fixed it for free," said one panelist during a discussion.

Consumers do not want many of the features currently available on phones, survey findings concluded. While 45 percent of those asked said they would want a device that automatically dials emergency calls, other features were not as widely welcomed.

Only 23 percent of the respondents said they would want or need a device to put a caller on hold; 15 percent, a device to convert rotary units to tone; 20 percent, a speaker phone feature, and only nine percent, a device for intercom and paging.

"Vendors should emphasize those features which consumers can understand and closely monitor shifts at the consumer level," said Amrhein. "Fewer bells and whistles should be the key marketing strategy for 1985."

A GRALLA PUBLICATION

JANUARY 1985

Merchandising

Home and Auto Electronics • Housewares • Major Appliances

THE NATIONAL MAGAZINE FOR HARDGOODS RETAILERS, WHOLESALERS AND DISTRIBUTORS

U.S. RETAILERS FIND THEMSELVES

AGAINST THE GRAY MARKET

- Can they compete?
- Should they play?
- Who's behind it?
- How does it work?
- Where do they get the goods?

Vendors Spotlight New Products at Winter CES

New Appliances Unveiled at Home Builders' Show

Also in this issue:

- Retailers seek higher profits in hifi VCR's
- Computers prepare for a second thrust at the home market
- Phil & Jim's: Following a roaster plan for expansion
- A day in the life of a small appliance/personal electronics buyer
- How to deal with post-holiday stress problems
- Are cordless phones hazardous to your customers' health?